

CITY OF HIGHLAND, KANSAS

REGULATORY BASIS FINANCIAL STATEMENTS
For the year ended December 31, 2012

And

INDEPENDENT AUDITOR'S REPORT

...KL...

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Certified Public Accountants

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CITY OF HIGHLAND, KANSAS

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Karlin & Long, LLC
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS

The Honorable Mayor and City Council
P.O. Box 387
Highland, Kansas 66035

We have audited the accompanying fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances of the City of Highland, Kansas ("Municipality") as of and for the year ended December 31, 2012, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the Kansas Municipal Audit and Accounting Guide as described in Note 1 to meet the financial reporting requirements of the State of Kansas. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statement that is free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the *Kansas Municipal Audit and Accounting Guide*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statement, the financial statement is prepared by the City of Lecompton to meet the requirements of the State of Kansas on the basis of the financial reporting provisions of the Kansas Municipal Audit and Accounting Guide, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles" paragraph, the financial statement referred to above does not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the City of Lecompton as of December 31, 2012, or changes in financial position and cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the aggregate cash and unencumbered cash balance of the City of Highland, Kansas ("Municipality") as of December 31, 2012, and the aggregate receipts and expenditures for the year then ended in accordance with the financial reporting provisions of the Kansas Municipal Audit and Accounting Guide described in Note 1.

Report on Supplementary Information

Our audit was conducted for the purpose of forming opinion on the 2012 fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances (basic financial statement) as a whole. The summary of regulatory basis expenditures-actual and budget and individual fund schedules of regulatory basis receipts and expenditures-actual and budget (Schedules 1 and 2 as listed in the table of contents) are presented for purposes of additional analysis and are not a required part of the 2012 basic financial statement, however are required to be presented under the provisions of the *Kansas Municipal Audit and Accounting Guide*. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and

other records used to prepare the 2012 basic financial statement. The 2012 information has been subjected to the auditing procedures applied in the audit of the 2012 basic financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 2012 basic financial statement or to the 2012 basic financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the 2012 basic financial statement as a whole, on the basis of accounting described in Note 1.

Karlin & Long, LLC

Karlin & Long, LLC
Certified Public Accountants

Lenexa, KS
June 10, 2013

CITY OF HIGHLAND, KANSAS
Summary Statement of Receipts, Expenditures, and Unencumbered Cash
Regulatory Basis
For the Year Ended December 31, 2012

Funds	Beginning Unencumbered Cash Balance	Prior Year Cancelled Encumbrances	Cash Receipts	Expenditures	Ending Unencumbered Cash Balance	Add Outstanding Encumbrances and Accounts Payable	Ending Cash Balance
General Fund	\$ 118,557	-	\$ 373,719	\$ 394,480	\$ 97,796	\$ -	\$ 97,796
Special Purpose Funds							
Special Highway	132,606	-	53,452	162,530	23,528	-	23,528
Degginger Fund	41,789	-	-	-	41,789	-	41,789
Building Maintenance	5,230	-	2,750	2,943	5,037	-	5,037
Diversion Fund	2,456	-	1,950	2,334	2,072	-	2,072
Parks and Recreation Fund	5,955	-	5,284	6,932	4,307	-	4,307
Grant 11-PF-035	-	-	400,000	400,000	-	-	-
Business Funds:							
Water Utility	152,431	-	216,936	256,465	112,902	-	112,902
Sewer Utility	54,337	-	138,875	145,991	47,221	-	47,221
Capital projects							
Capital Projects Fund	27,098	-	-	-	27,098	-	27,098
Total Reporting Entity	\$ 540,459	\$ 0	\$ 1,192,966	\$ 1,371,675	\$ 361,750	\$ 0	\$ 361,750
Composition of Cash							
					Checking Accounts		\$ 229,962
					Savings Accounts		
					Petty Cash		
					Municipal Investment Pool		
					Certificates of Deposit		131,788
					Total Reporting Entity		\$ 361,750

The notes to the financial statements are an integral part of this statement.

CITY OF HIGHLAND, KANSAS

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – Summary of Significant Accounting Policies

Financial Reporting Entity

The City of Highland, Kansas is a municipal corporation governed by an elected six member council. The regulatory statement presents the City of Highland (the municipality). There are no organizations which meet the criteria for being combined in the City's report.

Regulatory Basis Fund Types

General Fund – The chief operating fund. Used to account for all resources except those required to be accounted for in another fund.

Special Purpose Funds - Used to account for the proceeds of specific tax levies and other specific revenue sources (other than major capital projects and tax levies for long-term debt) that are intended for specified purposes.

Bond and Interest Fund – Used to account for the accumulation of resources, including tax levies, transfers from other funds and payment of general long-term debt.

Business Funds – funds financed in whole or in part by fees charged to users of the goods or services (i.e. water fund, sewer fund, etc.)

Regulatory Basis of Accounting and Departure from Accounting Principles Generally Accepted in the United States of America

The *Kansas Municipal Audit and Accounting Guide* (KMAAG) regulatory basis of accounting involves the recognition of cash, cash equivalents, marketable investments, and certain accounts payable and encumbrance obligations to arrive at a net unencumbered cash and investments balance on a regulatory basis for each fund, and the reporting of changes in unencumbered cash and investments of a fund resulting from the difference in regulatory basis revenues and regulatory basis expenditures for the fiscal year. All recognized assets and liabilities are measured and reported at cost, unless they have been permanently impaired and have no future cash value or represent no future obligation against cash. The KMAAG regulatory basis does not recognize capital assets, long-term debt. Accrued receivables and payables, or any other assets, liabilities or deferred inflows or outflows, other than those mentioned above.

The City has approved a resolution that is in compliance with K.S.A. 75-1120a(c), waiving the requirement for application of generally accepted accounting principles and allowing the City to use the regulatory basis of accounting.

CITY OF HIGHLAND, KANSAS

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Budgetary Information

Kansas Statutes require that an annual operating budget be legally adopted for the General Fund, Special Purpose Funds (unless specifically exempted by statute), Bond and Interest Funds, and Business Funds. Although directory rather than mandatory, the statutes provide for the following sequence and timetable in the adoption of the legal annual operating budget:

1. Preparation of the budget for the succeeding calendar year on or before August 1st.
2. Publication in local newspaper on or before August 5th of the proposed budget and notice of public hearing on the budget.
3. Public hearing on or before August 15th, but at least ten days after publication of notice of hearing.
4. Adoption of the final budget on or before August 25th.

The statutes allow for the governing body to increase the originally adopted budget for previously unbudgeted increases in revenues other than ad valorem property taxes. To do this, a notice of public hearing to amend the budget must be published in the local newspaper. At least ten days after publication, the hearing may be held and the governing body may amend the budget at that time. There were no such budget amendments for the 2012 year.

The statutes permit transferring budgeted amounts between line items within an individual fund. However, such statutes prohibit expenditures in excess of the total amount of the adopted budget of expenditures of individual funds. Budget comparison statements are presented for each fund showing actual receipts and expenditures compared to legally budgeted receipts and expenditures.

All legal annual operating budgets are prepared using the regulatory basis of accounting, in which revenues are recognized when cash is received and expenditures include disbursements, accounts payable and encumbrances, with disbursements being adjusted for prior year's accounts payable and encumbrances. Encumbrances are commitments by the municipality for future payments and are supported by a document evidencing the commitment, such as a purchase order or contract. All unused budgeted expenditure authority lapses at year end.

CITY OF HIGHLAND, KANSAS

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Budgetary Information (continued)

A legal operating budget is not required for capital projects funds, trust funds and the following special revenue funds:

- 1) Degginger Fund,
- 2) Building Maintenance Fund,
- 3) Diversion Fund,
- 4) Parks and Recreation Fund..

Spending in funds which are not subject to the legal annual operating budget requirement is controlled by federal regulations, other statutes, or by the use of internal spending limits established by the governing body.

NOTE 2 – Stewardship, Compliance and Accountability

We noted no violations of Kansas Statutes for the period under audit.

NOTE 3 – Deposits and Investments

K.S.A. 9-1401 establishes the depositories which may be used by the City. The statute requires banks eligible to hold the City's funds have a main or branch bank in the county in which the City is located, or in an adjoining county if such institution has been designated as an official depository, and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The City has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the City's investments of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The City has no investment policy that would further limit its investment choices.

Concentration of Credit Risk

State statutes place no limit on the amount the government may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and K.S.A. 9-1405.

CITY OF HIGHLAND, KANSAS

NOTES TO FINANCIAL STATEMENTS

NOTE 3 – Deposits and Investments (Continued)

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. State statutes require the City's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka. All deposits were legally secured at December 31, 2012.

At December 31, 2012, the City's carrying amount of deposits was \$ 361,750 and the bank balance was \$ 364,445. The bank balance was held by two banks resulting in a concentration of credit risk. Of the bank balance at year end, \$ 250,000 was covered by federal depository insurance and the remaining \$ 114,445 was collateralized with securities held by the pledging financial institutions' agents in the City's name.

Custodial Credit Risk- Investments

For an investment, this is the risk that, in the event of the failure of the issuer or counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State statutes require investments to be adequately secured.

NOTE 4 – Defined Benefit Pension Plan

Plan Description – The City of LeCompton, Kansas participates in the Kansas Public Employees Retirement System (KPERS), a cost sharing multiple-employer defined benefit pension plan as provided by Kansas law. KPERS provide retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefit provisions. KPERS issue a publicly available financial report (only one is issued) that includes financial statements and required supplementary information. That report may be obtained by writing to KPERS (611 S. Kansas; Topeka, KS 66603) or by calling 1-888-275-5737.

CITY OF HIGHLAND, KANSAS

NOTES TO FINANCIAL STATEMENTS

NOTE 4 – Defined Benefit Pension Plan (continued)

Funding Policy – K.S.A. 74-4919 and K.S.A. 74-4921 establishes the KPERS member-employee contribution rates. Effective July 1, 2009 KPERS has two benefit structures and funding depending on whether the employee is a Tier 1 or Tier 2 member. Tier 1 members are active and contributing members hired before July 1, 2009. Tier 2 members were first employed in a covered position on or after July 1, 2009. Kansas law establishes the KPERS member-employee contribution rate of 4% of covered salary for Tier 1 members and at 6% of covered salary for Tier 2 members. The employer collects and remits member-employee contributions according to the provisions of section 414 (h) of the Internal Revenue Code. Kansas law provides that the employer contribution rates be determined annually based on the results of an annual actuarial valuation. KPERS is funded on an actuarial reserve basis. Kansas law sets a limitation on annual increases in the employer contribution rates.

The State of Kansas is required to contribute the statutory required employers share.

NOTE 5 – Other Long Term Obligations from Operations

Other Post Employment Benefits

As provided by K.S.A. 12-5040, the City allows retirees to participate in the group health insurance plan. While each retiree pays the full amount of the applicable premium, conceptually, the city is subsidizing the retirees because each participant is charged a level of premium regardless of age. However, the cost of this subsidy has not been quantified in these statements.

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the city makes health care available to eligible former employees and eligible dependents. Certain requirements are outlined by the federal government for this coverage. The premium is paid in full by the insured.

Compensated Absences

City policies regarding vacation pay provide full-time employees vacations with pay for two weeks, then three weeks after five years of service, to accumulate to six weeks maximum. Sick leave for full time employees accrues at two weeks per year to accumulate to six weeks maximum. This amount has not been recorded in the financial statements.

CITY OF HIGHLAND, KANSAS

NOTES TO FINANCIAL STATEMENTS

NOTE 6 – Claims and Judgments

The City participates in federal, state and county programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants are subject to audit by the appropriate grantor government. If expenditures are disallowed due to noncompliance with grant program regulations, the City may be required to reimburse the grantor government. As of June 10, 2013, grant expenditures have not been audited, but the City believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on any of the individual governmental funds or the overall financial position of the City.

The City is exposed to various risks of loss related to limited torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employee; and natural disasters. The City has purchased commercial insurance for these potential risks. There have been no significant reductions in insurance coverage from 2011 to 2012 and there were no settlements that exceeded insurance coverage in the past three years.

During the ordinary course of its operations the City is a party to various claims, legal actions and complaints. It is the opinion of the City's management and legal counsel that these matters are not anticipated to have a material financial impact on the City.

NOTE 7 – Operating Transfers

Transfers during 2012 were as follows

From	To
General Fund	Special Highway Fund \$ 23,684 per K.S.A. 79-2526

NOTE 8 – Subsequent Events

Management has evaluated the effects of the financial statement of subsequent events occurring through June 10, 2013 which is the date at which the financial statement was available to be issued.

CITY OF HIGHLAND, KANSAS

NOTES TO FINANCIAL STATEMENTS

Note 9 - Long Term Debt

Changes in long-term liabilities for the City for the year ended December 31, 2012 were as follows:

Issue	Interest Rate	Date of Issue	Amount of Issue	Date of Final Maturity	Balance Beginning of Year	Additions	Reductions/ Payments	Net Change	Balance End of Year	Interest Paid
General Obligation Bonds Water System	4.00%-4.25	10/1/01	75,000	10/1/12	\$ 10,000	\$	\$ 10,000	\$ (10,000)	\$ 0	\$ 425
Leases										
Firefighting equipment	1.00%	6/1/05	17,000	6/1/25	12,152		851	(851)	11,301	119
Bobcat lease	0.00%	4/6/10	32,312	4/6/12	24,048		12,024	(12,024)	12,024	-
KDHE Loan: Kansas Department of Health and Environment(Wastewater)	3.44%	8/1/99	797,380	9/1/18	283,735		39,664	(39,664)	244,071	8,738
Total Long Term Debt					\$ 329,935	\$ 0	\$ 62,539	\$ (62,539)	\$ 267,396	\$ 9,282

Current maturities of long-term debt and interest for the next five years and in five year increments through maturity are as follows:

	2013	2014	2015	2016	2017	2018-2022	2023-2025	Total
Principal								
General Obligation Bonds	\$	\$	\$	\$	\$	\$	\$	\$ 0
Special Assessment Bonds								0
Certificates of Participation								0
Capital Leases	12,883	868	876	885	894	4,606	2,313	23,325
Revenue Bonds								0
KDHE Loans	40,250	41,646	43,091	44,586	46,133	28,365		244,071
Temporary Notes								0
Total Principal	53,133	42,514	43,967	45,471	47,027	32,971	2,313	267,396
Interest								
General Obligation Bonds								0
Special Assessment Bonds								0
Certificates of Participation								0
Capital Leases	111	102	94	85	76	244	34	746
Revenue Bonds								0
KDHE Loans	8,079	6,683	5,238	3,743	2,196	595		26,534
Temporary Notes								0
Total Interest	8,190	6,785	5,332	3,828	2,272	839	34	27,280
Total Principal and Interest	\$ 61,323	\$ 49,299	\$ 49,299	\$ 49,299	\$ 49,299	\$ 33,810	\$ 2,347	\$ 294,676

CITY OF HIGHLAND, KANSAS

REGULATORY - REQUIRED

SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED DECEMBER 31, 2012

CITY OF HIGHLAND, KANSAS
Summary of Expenditures - Actual and Budget
Regulatory Basis
(Budgeted Funds Only)
For the Year Ended December 31, 2012

Funds	Certified Budget	Adjustments to Comply with Legal Max	Adjustments for Qualifying Budget Credits	Total Budget for Comparison	Expenditures Chargeable to Current Year	Variance - Over (Under)
General Fund	\$ 454,388	\$ 0	\$ 0	\$ 454,388	\$ 394,480	\$ (59,908)
Special Purpose Funds:						
Special Highway Capital Projects	165,361 37,098	0 0	0 0	165,361 37,098	162,530 0	(2,831) (37,098)
Total Special Purpose Funds	202,459	0	0	202,459	162,530	(39,929)
Business Funds:						
Water Utility Fund Sewer Utility Fund	329,298 194,053	0 0	0 0	329,298 194,053	256,465 145,991	(72,833) (48,062)
Total Business Funds	523,351	0	0	523,351	402,456	(120,895)

The notes to the financial statements are an integral part of this statement.

CITY OF HIGHLAND, KANSAS
GENERAL FUND
SCHEDULE OF RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
Regulatory Basis
For the Year Ended December 31, 2012

	Actual	Budget	Variance- Favorable (Unfavorable)
CASH RECEIPTS			
Taxes and Shared Revenue			
Ad valorem property tax	\$ 98,390	104,093	\$ (5,703)
Motor vehicle tax	17,216	18,153	(937)
RV tax	373	335	38
Redemption District	5,346	1,882	3,464
Gross Earnings tax	4,646	4,276	370
Franchise fees	60,533	65,000	(4,467)
Intergovernmental revenues			0
Sales tax	123,516	110,000	13,516
Licenses, rent, permits	706	1,000	(294)
Municipal court	31,722	35,000	(3,278)
Interest income	3,240		3,240
Miscellaneous revenues	28,031		28,031
Reimbursements		2,000	(2,000)
Operating transfers			0
Total Cash Receipts	<u>373,719</u>	<u>341,739</u>	<u>31,980</u>
EXPENDITURES			
General government			
Personnel services	168,226	150,000	(18,226)
Commodities	68,873	90,000	21,127
Contractual	101,359	120,000	18,641
Public safety	27,368	15,000	(12,368)
Highways and streets			0
Recreation and culture		3,000	3,000
Capital outlay		61,388	61,388
Debt Service	4,970	15,000	10,030
Operating transfers	23,684		(23,684)
Adjustment for qualifying budget credits			0
Total Expenditures	<u>394,480</u>	<u>\$ 454,388</u>	<u>\$ 59,908</u>
Receipts Over (Under) Expenditures	(20,761)		
Unencumbered Cash, Beginning	118,557		
Prior Year Cancelled Encumbrances	<u>0</u>		
Unencumbered Cash, Ending	<u>\$ 97,796</u>		

The notes to the financial statements are an integral part of this statement.

CITY OF HIGHLAND, KANSAS
SPECIAL PURPOSE FUND
SPECIAL HIGHWAY FUND
 SCHEDULE OF RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
 Regulatory Basis
 For the Year Ended December 31, 2012

	<u>Actual</u>	<u>Budget</u>	Variance- Favorable (Unfavorable)
CASH RECEIPTS			
Taxes and Shared Revenue			
Ad valorem property tax	\$	\$	\$ 0
Delinquent tax			0
Motor vehicle tax			0
RV tax			0
16/20M vehicle tax			0
Fuel tax	26,218	25,650	568
Sales tax			0
Bond proceeds			0
Interest income			0
Miscellaneous revenues	3,550		3,550
Operating transfers	<u>23,684</u>	<u></u>	<u>23,684</u>
Total Cash Receipts	<u>53,452</u>	<u>25,650</u>	<u>27,802</u>
EXPENDITURES			
Commodities	97,499		(97,499)
Contractual	63,007	30,000	(33,007)
Capital outlay		135,361	135,361
Debt Service	2,024		(2,024)
Operating transfers			0
Adjustment for qualifying budget credits	<u></u>	<u></u>	<u>0</u>
Total Expenditures	<u>162,530</u>	<u>\$ 165,361</u>	<u>\$ 2,831</u>
Receipts Over (Under) Expenditures	(109,078)		
Unencumbered Cash, Beginning	132,606		
Prior Year Cancelled Encumbrances	<u>0</u>		
Unencumbered Cash, Ending	\$ <u>23,528</u>		

The notes to the financial statements are an integral part of this statement.

CITY OF HIGHLAND, KANSAS
SPECIAL PURPOSE FUND
 ANY NONBUDGETED FUNDS
 SCHEDULE OF RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
 Regulatory Basis
 For the Year Ended December 31, 2012

	<u>Degginger Fund</u>	<u>Building Maintenance</u>	<u>Diversion Fund</u>
CASH RECEIPTS			
Federal grants	\$	\$	\$
State aid/grants			
Licenses, rent, permits		2,750	1,950
Charges for services			
Interest income			
Miscellaneous revenues			
Operating transfers			
	<u>0</u>	<u>2,750</u>	<u>1,950</u>
EXPENDITURES			
Operations			
Personnel services			
Commodities		1,108	2,334
Contractual		1,835	
Capital outlay			
Debt service			
Operating transfers			
Adjustment for qualifying budget credits			
	<u>0</u>	<u>2,943</u>	<u>2,334</u>
Receipts Over (Under) Expenditures	0	(193)	(384)
Unencumbered Cash, Beginning	41,789	5,230	2,456
Prior Year Cancelled Encumbrances	<u>0</u>	<u>0</u>	<u>0</u>
Unencumbered Cash, Ending	\$ <u><u>41,789</u></u>	\$ <u><u>5,037</u></u>	\$ <u><u>2,072</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF HIGHLAND, KANSAS
SPECIAL PURPOSE FUND
 ANY NONBUDGETED FUNDS
 SCHEDULE OF RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
 Regulatory Basis
 For the Year Ended December 31, 2012

	Parks and Recreation Fund	Grant 11-PF-035
CASH RECEIPTS		
Federal grants	\$	\$ 400,000
State aid/grants		
Licenses, rent, permits	5,284	
Charges for services		
Interest income		
Miscellaneous revenues		
Operating transfers		
	<hr/>	<hr/>
Total Cash Receipts	<u>5,284</u>	<u>400,000</u>
EXPENDITURES		
Operations		
Personnel services	3,230	
Commodities	2,452	
Contractual	1,250	400,000
Capital outlay		
Debt service		
Operating transfers		
Adjustment for qualifying budget credits		
	<hr/>	<hr/>
Total Expenditures	<u>6,932</u>	<u>400,000</u>
Receipts Over (Under) Expenditures	(1,648)	0
Unencumbered Cash, Beginning	5,955	-
Prior Year Cancelled Encumbrances	<u>0</u>	<u>0</u>
Unencumbered Cash, Ending	\$ <u><u>4,307</u></u>	\$ <u><u>0</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF HIGHLAND, KANSAS
BUSINESS FUND
WATER FUND
 SCHEDULE OF RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
 Regulatory Basis
 For the Year Ended December 31, 2012

	<u>Actual</u>	<u>Budget</u>	Variance- Favorable <u>(Unfavorable)</u>
CASH RECEIPTS			
Charges for services	\$ 212,263	\$ 215,000	\$ (2,737)
Interest income		3,000	(3,000)
Miscellaneous revenues	4,673		4,673
Operating transfers			0
	<u>216,936</u>	<u>218,000</u>	<u>(1,064)</u>
EXPENDITURES			
Production			
Personnel services	73,257	95,000	21,743
Commodities	28,386	65,000	36,614
Contractual	137,490	90,000	(47,490)
Refuse collection			0
Capital outlay		67,298	67,298
Debt service	14,426	12,000	(2,426)
Miscellaneous	2,906		(2,906)
Operating transfers			0
Adjustment for qualifying budget credits			0
	<u>256,465</u>	<u>\$ 329,298</u>	<u>\$ 72,833</u>
Receipts Over (Under) Expenditures	(39,529)		
Unencumbered Cash, Beginning	152,431		
Prior Year Cancelled Encumbrances	<u>0</u>		
Unencumbered Cash, Ending	<u>\$ 112,902</u>		

The notes to the financial statements are an integral part of this statement.

CITY OF HIGHLAND, KANSAS
BUSINESS FUND
SEWER FUND
 SCHEDULE OF RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
 Regulatory Basis
 For the Year Ended December 31, 2012

	<u>Actual</u>	<u>Budget</u>	Variance- Favorable (Unfavorable)
CASH RECEIPTS			
Charges for services	\$ 138,875	\$ 145,000	\$ (6,125)
Interest income			0
Miscellaneous revenues			0
Operating transfers			0
	<u>138,875</u>	<u>145,000</u>	<u>(6,125)</u>
Total Cash Receipts			
EXPENDITURES			
Operations			
Personnel services	51,122	60,000	8,878
Commodities	27,382	20,000	(7,382)
Contractual	16,401	20,000	3,599
Capital outlay		39,053	39,053
Debt service	51,086	55,000	3,914
Operating transfers			0
Adjustment for qualifying budget credits			0
	<u>145,991</u>	<u>\$ 194,053</u>	<u>\$ 48,062</u>
Total Expenditures			
Receipts Over (Under) Expenditures	(7,116)		
Unencumbered Cash, Beginning	54,337		
Prior Year Cancelled Encumbrances	<u>0</u>		
Unencumbered Cash, Ending	\$ <u>47,221</u>		

The notes to financial statements are an integral part of this statement.

CITY OF HIGHLAND, KANSAS
CAPITAL PROJECTS FUND
CAPITAL PROJECTS FUND
 SCHEDULE OF RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
 Regulatory Basis
 For the Year Ended December 31, 2012

	<u>Actual</u>	<u>Budget</u>	Variance- Favorable (Unfavorable)
CASH RECEIPTS			
Charges for services	\$	\$	\$ 0
Interest income			0
Miscellaneous revenues		10,000	(10,000)
Operating transfers			0
	<u>0</u>	<u>10,000</u>	<u>(10,000)</u>
Total Cash Receipts			
EXPENDITURES			
Operations			
Personnel services			0
Commodities			0
Contractual			0
Capital outlay		37,098	37,098
Debt service			0
Operating transfers			0
Adjustment for qualifying budget credits			0
	<u>0</u>	<u>37,098</u>	<u>37,098</u>
Total Expenditures			
	<u>0</u>	<u>\$ 37,098</u>	<u>\$ 37,098</u>
Receipts Over (Under) Expenditures	0		
Unencumbered Cash, Beginning	27,098		
Prior Year Cancelled Encumbrances	<u>0</u>		
Unencumbered Cash, Ending	\$ <u>27,098</u>		

The notes to financial statements are an integral part of this statement.

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Karlin & Long, LLC
Certified Public Accountants

The Honorable Mayor and City Council
P.O. Box 387
Highland, Kansas 66035

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

We have audited the financial statements of the City of Highland, Kansas as of and for the year ended December 31, 2012 and have issued our report thereon dated February 1, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City of Highland, Kansas internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the city's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the organization's financial statements will not be prevented, or detected and corrected on a timely basis.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the organization's internal control.

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City Council
City of Highland, Kansas

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Highland, Kansas financial statements are free of material misstatement, we performed test of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of the audit committee, management, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Karlin & Long LLC
Certified Public Accountants

June 10, 2013